

Frank H. Murkowski, Governor

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Alaska consumers to be reimbursed in two settlement cases Waddell & Reed, Inc. and Marsh & McLennan Companies, Inc. agree to settlement terms

(December 7, 2005) Division of Insurance Director Linda Hall today announced the terms of two settlements reached with Waddell & Reed, Inc., an investment and financial services firm, Marsh & McLennan Companies, Inc., an insurance broker.

Waddell & Reed, Inc.:

The Alaska Consent Order issued by Director Hall and signed by Waddell & Reed, approves the terms of the multistate settlement negotiated by the National Association of Securities Dealers (NASD) and a coalition of state insurance and securities regulators. This settlement arises out of unlawful sales practices related to exchanges of variable annuity contracts. Under the settlement, Waddell & Reed agreed to set up a fund in the amount of \$11 million that will reimburse customers -- including Alaska customers -- who paid surrender charges on the exchange of their variable annuity contracts. While the firm does not admit or deny the allegations of regulators regarding unlawful practices, it has also agreed to pay a fine of \$5 million to NASD and a fine of \$2 million to state regulators, of which Alaska's share is \$20,000.

Waddell & Reed encouraged its existing customers to switch from one variable annuity to a similar product issued by a different insurer without properly determining whether the transaction was suitable for their needs. About 5,000 policyholders paid \$9.6 million in surrender charges, while Waddell & Reed earned about \$37 million in commissions for the company and its agents. The unlawful switches took place from January 2001 to August 2002 in numerous Waddell & Reed customer accounts.

"Waddell & Reed benefited itself by recommending unsuitable and expensive transactions to its customers, violating state law and its duty to its customers. This settlement puts money back into the hands of injured consumers," said Hall. Alaska consumers injured by the firm's actions will receive restitution.

Marsh & McLennan Companies., Inc.:

Over 30 state insurance regulators, including Alaska, working collaboratively through the National Association of Insurance Commissioners (NAIC) entered into a multi-state regulatory settlement with the nation's largest insurance broker, Marsh & McLennan Cos. Inc. (Marsh). The settlement agreement requires Marsh to implement extensive compensation and disclosure reforms. The agreement adopts Marsh's agreement made in January 2005 to pay its clients \$850 million in restitution to resolve allegations of fraud and anti-competitive practices. (Policyholders nationwide were notified of the settlement and given an opportunity to opt in to the restitution fund provided that they released all claims against the company.)

21 Alaska businesses opted into the national settlement

The business reforms Marsh adopted include limiting its brokerage compensation to a single fee or commission at the time of placement, banning contingent commissions, and requiring disclosure of all forms of compensation to the clients. The participating state regulators will receive ongoing compliance reports from Marsh, have the authority to enforce reforms, and retain the ability to continue ongoing investigations with Marsh's cooperation.

"I am pleased that the Marsh settlement's reforms will be enforced nationwide," said Director Hall. "Consumers will benefit from fairer treatment and greater disclosure. The settlement puts the entire commercial brokerage industry on notice that we will require them to obey the law," said Hall.